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ABSTRACT

Presented in this paper is an outline of remarks concerning the trends in the U.S. economy to 1990, trends in higher education to 1990, and critical problems to be anticipated in higher education. The major thrust of the document can be summarized in four main points. For the next ten to fifteen years, (1) higher education enrollments are bound to increase; (2) higher education costs are bound to increase and faster than income from non-governmental sources; (3) no one has figured out what to do about this imbalance, except increase the amount of government money; and (4) better management would help reduce the imbalance, for although it won't solve the financing problem, it may establish greater confidence in the higher education enterprise. (HS)

ASPEN EXECUTIVE SEMINAR

ON

MEETING THE FINANCIAL CRISIS OF COLLEGES AND UNIVERSITIES

Outline of Remarks by
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Part A: Trends in the U.S. Economy to 1990

Part B: Trends in Higher Education to 1990

Part C: Critical Problems in Higher Education

July 31, 1972

A. Trends in the U.S. Economy to 1990

1. I didn't try to act as an expert in this area, but instead turned to Herman Kahn of the Hudson Institute, who appeared a few days ago at a seminar composed of state university executives, and distributed a paper dated July 5, 1972, in which the Institute summarized a study on the Prospects for Mankind to the year 2000.

2. I used this paper as a basis for considering 1990. The conclusions to 1990 are the following:

   a. There will be neither a major war, nor wide-spread disarmament.

   b. The U.S. gross national product will continue to grow and there will continue to be real increases in productivity.

   c. The population will grow moderately and there will not be a problem of population overcrowding.

   d. There will be enough natural resources and energy to permit the country's productivity to continue and to maintain the environment in a livable condition.

e. The number of people employed will continue to grow, but hereafter the growth in employment will be mainly in the category of services. In recent years the U.S. has become a greater and greater service economy. This trend will continue.

f. By 1990 the U.S. economy and society will look much as it does today, although there will be greater involvement in leadership positions of persons hitherto excluded because they were minorities.

g. In 1990 we will still be facing many of the same problems as today. (The Hudson Institute study expects that no new solutions will be discovered. Somehow, says, the Hudson paper, "we will muddle through.")

B. Trends in Higher Education to 1990

1. Enrollments will continue upward until the early 1980's reaching a level of about 12 million persons a decade hence, compared with about 8 million now. They then can be expected to level off with a slightly upward trend for a number of years thereafter, possibly to 1990.

2. The enrollment projections always seem to turn out to be higher than we first anticipate when we look at the population data for 18 to 24 year olds. (Note: We expect enrollment to

increase 50% during a period when the college age population increases only 20%.) A number of factors keep pushing the enrollment projections up. Among these are:

a. A large increase in the number of disadvantaged students, particularly urban blacks and Spanish-speaking Americans who can be expected to enroll in higher education.

b. An increasing number of married women who can be expected to resume their educations after raising their families.

c. An increasing number of men and women employed in full time jobs who can be expected to be enrolled in organized eudcational programs for a large portion of their lives.

d. A large number of technical and vocational programs which are likely to be upgraded to the college level, (particularly to the junior college level, and in some cases to the senior college level), for specialities such as nursing, and professional work in other health fields. Also the tendency to make credentials for many professions require more and more college work is expected to continue.

e. Trends toward greater automation and mechanization, and higher minimum wages will continue to reduce the number of jobs available to untrained young people. This factor can be expected to encourage many young people to prolong their stay in college because of the lack of a better alternative.

f. In addition to the foregoing: the nationwide development of the new concept -- the "right" to go to college -- not only for the few, and the most affluent, and the most gifted, but for everyone who wishes to go to college and can profit therefrom. Going to college has become a political and social issue as well as an educational matter. Many of the decisions about who should go to college and about the overall number of persons enrolled in college will be made by legislators, parents, and students instead of by educators.

3. Within the total number of persons enrolled in higher education we can expect substantial shifts from the present situation including the following:

a. Big increase in enrollment between now and 1990 in the two year public community colleges, and the four year public colleges and universities located in or near the one hundred largest cities and their suburbs, (called by the Census Bureau, the Standard Statistical Metropolitan areas.)

b. Many public two year community colleges in these areas may expand themselves into four year institutions to meet the pressure for low cost and relatively narrow range college programs, and technical training.

c. Decline or leveling off in the enrollment in public colleges and universities in rural areas and small towns. This is already happening at such institutions as Western Illinois University in Macomb, Illinois and other similar institutions where the student doesn't want to live in college dormitories and other housing alternatives are not conveniently available.

d. Decline in enrollment at private institutions as a whole because of:

(1) The collapse as private organizations of some of the big private colleges and universities.

New York University is the first such example for the 1970's. (Buffalo, Houston, Kansas City, Temple, Pittsburgh, were previous examples in the 1960's.

Three years from now NYU can be expected to have 50% fewer students as a private university than three years ago when the

head count enrollment was 40,000 students. Brooklyn Poly is close behind; the University of Detroit is reported to be tottering; there are a number of other large institutions where the moment of truth may occur this year.

(2) A continued downtrend in the enrollment at many other institutions because they have priced themselves out of what has now turned out to be a declining market.

The number of young people with parents whose incomes can meet the tuition now being charged in many private colleges, or who are so impecunious that they can quality for scholarships for the full costs of going to such colleges is too small to fill all the empty spaces now existing at high tuition private colleges and universities. As a result enrollment declines of 5% to 10% a year have been reported at some private colleges since 1969. There are exceptions; however, they are only a fraction of the total. Included among the exceptions are:

- Prestige institutions, such as in the Ivy League.
- Institutions with special purposes (such as the New School for Social Research or the College of Insurance.)
- Institutions with special programs (such as work/study, or adult education).
- Instutitions which are extraordinarily aggressive.

4. Cost of higher education is likely to increase faster than enrollments because:

   a. Higher education is a labor-intensive industry which has not been able to increase productivity (however that may be defined) and is not expected to change rapidly during the next 17 years. Howard Bowen has pointed out that the same problem exists in such service areas as health and cultural activities and government operations.

   b. Higher education institutions today are frequently not set up to adopt the various possibilities for savings over the present levels of cost. This is a management problem. Carnegie Commission and other students and observers have frequently described the opportunities but to no avail.

c. Over the years management responsibility and control at the top has been erroded. Decision making has been distributed so far down the line that major changes in policy to effect cost savings are not possible until a dire emergency occurs that requires firing people (such as the sale of part of NYU to avoid bankruptcy).

5. The budget is emerging as the greatest potential determinant of what is taught in colleges and universities, to whom it is taught, how it is taught, who does the teaching, what research is done, who does it, etc.

Many believe that using the budget as the determinant is the wrong approach. Nevertheless in the absence of other effective management devices it may be the most effective approach possible and its influence is likely to be intensified during the next few years.

Against this background we in the Academy have been working and concentrating our efforts in the Management Division on the management of the academic enterprise. We have been examining the management possibilities of increasing income on the one hand and reducing costs on the other; or to be more precise increasing the rate of income expansion, and reducing the rate of cost expansion.

6. On the "income" side the conventional wisdom says that the trend to 1990 will include:

- A big increase in federal appropriations
- A big increase also in state appropriations
- A minimal increase in other sources of income

An examination of these trend projections highlights the following points:

a. Federal appropriations:

(1) The new bill is an authorization measure only; it will provide aid based on the number of federally aided students enrolled, (which means minorities and other impecunious persons.)

(2) The amount appropriated is likely to be much less than the authorization because of present and prospective squeezes on the federal budget.

(3) An appropriation of as much as $800 million for the first year (a generous estimate) would average no more than $100 per student; while important this amount would not be great enough to do more than ameliorate slightly the higher education financing problems.

(4) Congress turned down the option of making direct aid to higher education institutions on the basis of Mrs. Green's formula. The possibility of establishing this formula in the immediate future is dim. College presidents didn't do the lobbying job that was called for to sell the idea. They depended upon the professional associations and this was not enough.

b. State appropriations:

(1) They are increasingly running into stone walls of tax payer and legislative resistance.

(2) They are being made by legislators that are increasingly reluctant, and are growing more critical of higher education management.

(3) They are being tied into various restrictions on management for example:

- NYU appropriation tied into budget balancing.
- Brooklyn Poly grant tied into doing something about NYU's engineering program.
- Proposals specifying number of teaching hours required of the faculty.

(4) They are being made by persons looking increasingly at cheaper alternatives, for example:

- Community colleges
- Off-campus study programs
- Three year degree possibilities
- Private institutions via aid or subsidies for in-state students

c. Other sources of income:

(1) In the past the conventional wisdom in higher education has always said that the prospects for other sources of income were dim.

- Example: in the late 1940's it was said that corporate gifts could be only a minor factor in higher education financing. But, Ruml Abrams, Sloan, and others pushed cases through the courts which made unrestricted corporate giving to higher education possible and substantial in the higher education financing picture.
- Example: in the early 1950's it was said that tuition at public colleges and universities couldn't go up without

curtailing student-opportunities substantially. The fact is that tuitions at public institutions are four to five times as high as they were 20 years ago, and the number enrolled is at an all time peak.

(2) Today a number of people (not too many it is true) believe that the potential from other sources of income hasn't been tapped. They point out:

<u>In re gifts</u>:

- The corporate percentage is only about 1% of net income.
- Alumni giving is a small amount per person; only a small percentage of alumni are involved.
- The private fund-raising activities of state universities has only just begun.
- The case for "need," if made, is usually devoid of facts.

<u>In re earnings from property:</u>

- Earnings from endowments are still at low levels.

- Earnings from non-academic use of underutilized plants are very low.
- Many institutions are just sitting on unused property accumulations.

<u>In re tuition</u>:

- The public universities and colleges are still a great bargain for many middle income and upper income students.
- Contracts with corporations and government agencies for in-service educational training have just begun to develop.
- The possibilities of increased tuition supported by long term loans have not been exploited. To be sure this would probably require an amendment to the federal tax laws to make it work, but over a decade or two such a change might occur, especially if other alternatives are denied. (These alternatives are direct increases in federal and state taxes. It is hard to expect increases in such taxes in the future to be at the rate implied by the present plans of many colleges and universities.)

In re earnings from entrepreneurial activities

- A few colleges such as Knox and Oklahoma Christian are exploiting the possibilities of "unrelated" earnings.
- Paying taxes on such earnings is required and appropriate.
- Greater risk may be taking no action. The choice may be between competing in unrelated fields or closing up shop entirely.

7. On the "expenditure" side the conventional wisdom is that the trend will continue at the present rate (5½% a year increase in expenditure per student or 3% net, excluding inflation). Reasons include:

a. Long historical trend.

b. Lack of control on outside costs such as utilities, food, office supplies, library books, debt service on new buildings.

c. Unionization on non-academic personnel.

d. Unionization or bargaining by academics.

e. Pressure for better working conditions and benefits

- lower teaching loads
- more fringe benefits
- more office space, library facilities, etc.

8. The Carnegie Commission is proposing a slower expenditure increase trend -- about 2% a year net excluding inflation. The key component: higher student/faculty ratios without cutting the quality of education offered. It is reasonable to expect that this proposed trend will actually occur during the next few years because:

   a. Educators everywhere admit that higher student/faculty ratios than in the past are possible.

   b. A hundred examples are soon to be released showing where such ratios existed during the last school year at four-year colleges and universities and law schools, public and private, large and small, and in all parts of the country.

   c. There is a push for higher ratios and teaching loads at the state-supported institutions from legislatures and state-wide coordinating boards. In some states there has been an attempt to incorporate the contact-hour load into law, or to express it as legislative policy.

   d. There is also a push for greater efficiency and lower costs from the public. Many people believe that faculties are wasteful and that colleges and universities don't really need all the money they request. Examples:

      - Buildings that are empty a considerable part of the time.

- Faculties who aren't teaching very much (a full-time teaching load allows full-time faculty to be off campus two or three days a week.
- Students who don't have to work very hard.
- Salaries that many people believe are too high for the teaching done.

  NOTE: This is a serious situation because for people to believe generally that faculties are wasteful can be even more harmful than any actual wastefulness itself.

C. Critical Problems in Higher Education

1. How do we improve learning?

   a. No one seems to know the answers, but they are essential if any progress is to be made on the efficiency and effectiveness of the educational process.

   b. The Commission on Instructional Technology proposed extensive research and development; Congress agreed and authorized an appropriation of $500 million (as the CIT suggested) but the prospects for a big appropriation and research effort are dim. The President recommended $10 million.

   c. The failure to know much about learning causes most of the experiments with new educational techniques (such as television, computers, or performance contracting) to result in no significant difference in learning and "add-on" costs.

   d. At the moment the effort going into educational R&D is miniscule, about 1/4 of 1% of the total budget expenditure compared with 5% in health, 4% in industry and 6% in agriculture.

2. How do we manage the higher education enterprise?

   a. Today educational enterprises everywhere have grown so large that they are becoming mamouth business-type operations.

      - Even small colleges spend millions of dollars a year. A large university budget runs into tens of millions.

A university system such as the State University of New York has a budget of $500 million, and university systems such as the University of California, which operate government-financed research centers, have totals that are even higher.

b. Until now many of the men who have been put in charge of these vast enterprises had little, if any, administrative experience or background.

- Many a department chariman or an academic scholar has suddenly found himself propelled into an administrative job of mamouth proportions with little administrative experience. He is entirely unprepared for what is about to happen as he takes over his new job.

c. The belief is emerging that the field of higher education won't be able to continue the historical technique of executive personnel selection far into the future. Instead, a technique built around the development of an academic administrator who is trained as carefully as a corporation executive is likely to emerge.

- That academic administrator will need to be trained to be able to do everything that a corporate executive has to do, and then some. Included may be many onerous administrative duties, such as labor relations, client relations,

community relations, efficient production, squeezing unit costs, meeting impossible budgets, etc.

d. Educational institutions may have to compete by paying salaries for this new type of administrator at a level that is entirely new for the education market if they want to be in a position to get able and effective men.

- With the specifications of the job presidents usually do, the "right" salary for the president of a large state university system such as the University of New York or the University of California system or the University of Wisconsin system today is probably close to $200,000 a year -- or about two or three times the level paid present chief executives.

- And why not at this level? Some of the systems have investments in plants running into billions of dollars, have a daily clientele of hundreds of thousands of students, and employ 25,000 or more people, which puts them as high up as many of the nation's employers.

- Paying additional salaries by themselves won't make present presidents better administrators but will encourage people with considerable administrative backgrounds in business, industry and education, and who can move in and out of these various fields, to be candidates for top positions in universities. James Webb and Glenn Seaborg are two examples that come to mind.

e. In addition, for a president to be able to do his job well, he may need five or six assistants as the vice presidential level. On today's market they are worth between $75,000 and $100,000 a year, and it will take this salary level to be competitive for appropriate people.

f. These figures are designed to illustrate the kind of administrative men needed -- leaders, in-fighters, men with lots of experience in big administrative activities. And while everyone knows that money by itself won't create good administrators or bring them to large universities, it certainly is far ahead of "number two" as a motivating device.

g. Better trained executives in higher education won't solve all the problems; after all, well trained business executives have made mistakes; for example, Ford's Edsel;

Dupont's Corform; Boise Cascade; RCA, General Foods, and others. But the idea of thousands of administrators in big educational enterprises depending upon "on the job training" for their experience does undermind confidence in the process.

3. <u>How do we deal with the increasing financial crunch in higher education without changing the character of higher education completely</u>?

   a. There is no doubt that the crunch is here. Recent reports are that two-thirds of the private colleges are in trouble or are heading for trouble; that half of the private colleges are in the red now; that there will be tens of thousands of vacancies in colleges, both private and public this fall.

   b. What caused the crunch; a number of factors including:

      (1) Inflation; it started to raise costs pretty fast.

      (2) Unemployment; it caused a lot of people to review what they were spending money on.

      (3) Student unrest; it got a number of key people <u>un</u>interested in higher education, at least as a place to put their money.

      (4) Space; everyone caught up on their construction programs, so that now it is physically possible

to handle every student available and then some. (Note: Some geographic shortages.)

(5) The dip in the stock market. This dampened the generous attitude of some foundations and rich donars.

(6) A tight federal and state budget situation.

(7) The surplus of Ph.D's and highly trained engineers and scientists; also school teachers and college faculty members.

(8) The actual closing of a number of colleges. While we always talked about this possibility in the past, it never happened to anyone we knew, but these past few years a number of closings occurred. Included were:

- Notre Dame in Staten Island
- St. Joseph's in Maryland
- The old Mackinac College in Michigan
- Cascade in Oregon
- Hiram Scott and John J. Pershing in Nebraska
- Cardinal Cushing in Boston
- Midwestern University in Iowa
- Silvermine in Connecticut

o Monticello in Illinois

NEXT: NYU -- Bronx Campus

(9) As a result of the situation changing, all of the private colleges and universities in the country and many of the public institutions seem to be caught in a financial bind. They've got to set new priorities, to cut expenses, to reduce faculty and staff, to work harder and longer.

(10) These are difficult ideas to accept, particularly by institutions at which everything had been going along fine for many years.

- Here are many institutions, for example, that have never had so many students, have never paid such high salaries, have never had campuses that were so well manicured, and if you listen to faculty spokesmen, the president never had such a nice car, such a nice house, and travelled in such style.

(11) So here we are then, facing the grim facts and figures of future finance. The story is in the newspapers every day. Many trustees don't know the facts, neither do the faculty and somebody has to get them to listen

to the story like it really is -- not like they might want it to be.

Summary:

Four main points to remember from the foregoing:

For the next ten to fifteen years:

1. Higher education enrollments are bound to increase.

2. Higher education costs are bound to increase and faster than income from non-governmental sources.

3. No one has figured out what to do about this imbalance, except increase the amount of government money.

4. Better management would help reduce the imbalance; it won't solve the financing problem, but it may establish greater confidence in the higher education enterprise.